STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

COORDINATED COMPENSATION PROPOSAL

for

FISCAL YEAR 2009

Recommendations for Nonexclusively Represented Employees of the State of Michigan Classified Service for the Fiscal Year Beginning October 1, 2008

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SUMMARY OF PROPOSAL

This year, the Office of the State Employer (OSE) and three Limited Recognition Organizations (LROs) reached a consensus agreement reflecting a coordinated approach to compensation increases and fringe benefits changes for fiscal years 2009, 2010 and 2011.

THE PANEL PROPOSES that the Commission approve the following recommendations contained in that agreement pertaining to FY 2009, to become effective October 1, 2008:

- No across-the-board general wage increase during fiscal year 2009.
- An increase in the out-of-state premium for Department of Treasury Auditors to 20% of base salary.
- Change the Employer's share of the State Health Plan PPO premium to 90%.
- Change the Employer's share of HMO premiums to 95% up to the amount paid for the same coverage code under the State Health Plan PPO.
- Add a $50 co-pay for State Health Plan PPO members for emergency room visits if the employee is not admitted.
- Increase the State Health Plan PPO co-pay for office visits from $10 to $15.
- Increase State Health Plan PPO drug plan co-pays to $10 for generic, $20 for preferred brand, and $40 for non-preferred brand. The mail order program will have co-pays of $20 for generic, $40 for preferred, and $80 for non-preferred.
- The State Health Plan PPO drug plan will include the clinical programs of Generics Preferred, Step Therapy, and Drug Quantity Management.
- Renewal of the Professional Development Fund for MSC employees at $150,000 and renewal of the Professional Development Fund for B&A unit employees at $50,000.

THE PANEL PROPOSES that the Commission also approve the following recommendation from the consensus agreement, to become effective January 1, 2009:

- Effective January 1, 2009, increase the State Health Plan in-network deductible to $300 individual/$600 family, and increase the out-of network deductible to $600 individual/$1200 family.

OSE's Estimate of Total Savings of Proposal: $15,812,500

INTRODUCTION

Civil Service Commission Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel. Rule 5-1.3, *Coordinated Compensation Plan,* states*:*

> *The coordinated compensation panel shall send a recommended coordinated compensation plan for all nonexclusively represented classified employees to the civil service commission. The panel shall consider negotiated collective bargaining agreements, any impasse panel recommendations, and any recommendations of the employer or employees.*

Regulation 6.06, *Coordinated Compensation Plan,* establishes a process for participants and guidelines that may be used by the Panel in making its recommendations. Under the Regulation, participants in the Coordinated Compensation Plan (CCP) process include the Office of the State Employer (OSE) and organizations granted limited recognition rights under *Rule 6-8.3(b)*. The following three limited recognition organizations (LROs) participated in this year's CCP, via a consensus agreement with the OSE:

- Association of State Employees in Management (ASEM)
- Michigan Association of Governmental Employees (MAGE)
- Michigan State Police Command Officers Association (MSPCOA)

Nonexclusively represented employees who are not members of LROs may also participate in the CCP process upon leave granted by the Panel. On August 15, 2007, the Civil Service Commission issued Advisory Bulletin 6.06-1, providing the guidelines for employees to submit requests to participate in the FY 2008 process. The deadline for submission was September 14, 2007. No individuals submitted requests to participate in the process.

The Panel held a hearing on November 6, 2007. The Office of the State Employer briefed the Panel on the specifics of the consensus agreement reached with the participating LROs, and responded to the Panel's questions.

The following guidelines from Regulation 6.06, Standard D*,* are used by the Panel in making its determinations:

> *(1) The public interest and welfare, including the current and forecasted financial condition of the State.*

(2) *Comparison of the overall compensation received by excluded and non-exclusively represented classified state employees with the overall compensation received by exclusively represented classified state employees as the result of negotiated agreements or impasse panel recommendations.*

(3) *Comparison of the rates of pay, the continuity and stability of employment, and the overall compensation and benefits received by excluded and nonexclusively represented classified state employees with employees performing similar services in other public employment and in private employment.*

(4) *Other appropriate considerations to the sound and rational determination of a coordinated compensation plan.*

ECONOMIC OVERVIEW

Consistent with the provision in Regulation 6.06, calling for the Panel to consider "the current and forecasted financial condition of the State" in making its recommendations, the Panel received a briefing on FY08 revenue forecasts and budget projections during the hearing as part of the State Employer's presentation. Testimony and documents were received from Jeffrey Guilfoyle, Director of Economic and Revenue Forecasting in the Department of Treasury, and Colleen Gossman, Director of the Office of Planning and Local Government in the State Budget Office. The following is a brief summary of the information provided.

Mr. Guilfoyle began his presentation by reviewing current national and state economic indicators. He explained that the national economy has recovered from the 2001 recession and is still growing, but that growth has remained slow due to higher interest rates, slowing housing market, and higher fuel prices. Michigan's economy, meanwhile, has not seen a similar recovery, and the jobs lost during the recession have not been recovered. This is primarily due to the loss of manufacturing employment in Michigan, and the major restructuring occurring with the Big Three automakers and related parts suppliers. According to Mr. Guilfoyle, the forecast for Michigan employment growth should stay negative until the end of fiscal year 2008. Beginning in fiscal year 2009 job growth may slowly move towards zero and then have some moderate growth going forward.

After adjusting May's consensus revenue estimate for the Michigan Business Tax, the income tax increase, and the service tax increase, Mr. Guilfoyle presented the impact of assumed growth rates of 1% to 4% for FY09. After adjusting for the Earned Income Tax credit and an upcoming reduction in casino tax revenues, a baseline revenue increase of 2% would result in $8.3 million in net new revenue. A 4% growth rate would increase net revenues by $197.9 million.

Revenue Scenarios for FY 2009
($ in millions)

FY 2008 GF/GP Amount	Assumed Growth	Gross New Revenue	Effect of Tax Changes	FY 2009 Net New Revenue
$9480.7	1%	$94.8	($181.3)	$(86.5)
$9480.7	2%	$189.6	($181.3)	$8.3
$9480.7	3%	$284.4	($181.3)	$103.1
$9480.7	4%	$349.2	($181.3)	$197.9

The State's projected budgetary pressures for FY 2009 were outlined by Ms. Gossman, as summarized in the chart below:

FY 2009 GF/GP Spending Pressures
Preliminary Estimates ($ in millions)

Issue	Low Range	High Range
Medicaid: HMO Actuarial Rates	$60.0	$75.0
Medicaid: Federal Match Increase	($170.0)	($200.0)
Medicaid: Caseload/Utilization Growth	$100.0	$180.0
Human Services: Caseload / Utilization Growth	$25.0	$50.0
Department of Corrections	$20.0	$50.0
Debt Service Increase	$50.0	$65.0
State Employee Pension Costs	$40.0	$60.0
Other Post-Employment Benefits	$0.0	$135.0
Loss of One-Time Revenue in FY 2008 Budget	$90.0	$110.0
Total	**$215.0**	**$525.0**

Medicaid spending may be impacted by a federal requirement that we provide actuarial rates for our providers, an increase of the federal match (which represents a positive for the state budget), and growth in Medicaid caseload utilization. *Corrections* bed space continues to exert budgetary pressures, although the Michigan Prisoner Reentry Initiative has helped to control bed space growth. *State Employee Pension Costs* is related to estimates on insurance and retirement costs for FY08. *Other Post-Employment Benefits* refers to a requirement that public agencies and school districts disclose on their financial statements unfunded liabilities associated with post employment related expenses. There is no requirement to fund these liabilities, so the low range cost is zero with a high range cost of $135 million if they are funded. Next, there is the loss of a few *One-Time Revenue* items from the FY08 budget that will need to be accounted for in FY09.

Ms. Gossman concluded by stating that it would again be a very tight budget year. She noted that if revenue only grows at 1 to 2%, we can expect a negative $90 million to a positive $8.3 million in new revenue, while we are projecting between $200 and $500 million in new spending.

I. General Wage Adjustment

A. Base Pay Increase

The OSE, in a Consensus Agreement with ASEM, MAGE, and MSPCOA, recommends that there be no general wage adjustment during fiscal year 2008-2009.

Discussion

In its discussions, the Panel focused on the current and projected condition of the state's economy. The "current and forecasted financial condition of the State" is listed in Civil Service Regulation 6.06, as one of the four guidelines to be used in making its Coordinated Compensation Plan recommendations to the Commission. The Panel also noted that the tentative agreements covering most represented employees also contain no general increase provisions for FY08-09.

Recommendation

Upon consideration of all relevant guidelines set forth in Regulation 6.06, **THE PANEL RECOMMENDS** that the Commission approve the proposal of no across-the-board base wage increase for nonexclusively represented employees for fiscal year 2008-2009.

II. Special Adjustments and Premiums

A. Treasury Out-of-State Auditor Premium

The OSE recommends approval of an increase in the premium for Department of Treasury Auditors working and residing outside of Michigan to 20% of the employees' base pay. There are currently 48 positions classified as Auditors 9-12 and Auditor Managers 14-15 (40 employees and 8 vacancies) in the Department of Treasury who receive the premium. The premium is paid as a flat rate of $25 per day. It has not changed since 1987, when State Personnel Director John Hueni approved an increase from $7 per day.

The OSE indicates that the purpose of the premium was to attract and retain highly skilled auditors in regions of the country where higher costs of living and competition for qualified auditors are considerations. Michigan's auditors are currently employed in

Chicago, Cleveland, Dallas, Los Angeles, and New York City. The OSE notes that the Department of Treasury has been experiencing difficulties in recruiting and retaining qualified employees for these critical positions. The turnover rate for these positions was 20% in 2004, 8.33% in 2005, 4.17% in 2006, 10.64% in 2007, and in just 2 pay periods of 2008, it was 5%. Because these positions audit companies and manufacturers registered to do business in Michigan to ensure the appropriate taxes are being paid, retaining experienced staff is critical for securing revenues for the State of Michigan. OSE estimates that the annual cost of increasing the premium will be $387,500.

Discussion

As the OSE noted, this premium has not been increased since 1987. At that time, the $25 per day premium represented approximately 17% of a senior auditor's salary. For fiscal year 2008, it represents approximately 10% of the senior auditor's salary. The Panel agrees that setting the premium as a percentage of base salary, rather than a flat amount, is a much more equitable and consistent method for achieving the Department's goals. Based on the data provided, it is clear to the Panel that these are critical positions which the Department of Treasury has been unable to successfully recruit or retain over the last several years.

Therefore, **THE PANEL RECOMMENDS** that the Commission approve the increase to the Department of Treasury out-of-state auditor premium to 20% of base pay, effective October 1, 2008.

III. GROUP INSURANCE

A. State Health Plan PPO Premium

The consensus agreement between OSE and the LROs recommends changing the Employer's share of the State Health Plan PPO premium from 95% to 90%, effective October 1, 2008. OSE estimates savings of $5.6 million.

B. HMO Premium

The consensus agreement between OSE and the LROs also recommends changing the Employer's share of HMO premiums to 95%, up to the amount paid for the same coverage code under the State Health Plan PPO, effective October 1, 2008. OSE estimates savings of $4.2 million.

C. SHP PPO Emergency Room Visit Co-Pay

Parties to the consensus agreement propose adding a $50 co-pay for the State Health Plan PPO for emergency room visits if the employee is not admitted, effective October 1, 2008. OSE estimates a savings of $630,000.

D. SHP PPO Office Visit Co-Pay

The consensus agreement between the OSE and the LROs recommends increasing the co-pay for office visits (physician office, office consultation, chiropractic spinal manipulation, urgent care, hearing care) under the State Health Plan PPO from $10 to $15, effective October 1, 2008. OSE estimates a savings of $1.2 million.

E. SHP PPO Drug Plan Co-Pay

Effective October 1, 2008, parties to the consensus agreement recommend increasing the SHP PPO drug plan co-pays to $10 for generic, $20 for preferred brand, and $40 for non-preferred brand. The mail order program will have co-pays of $20 for generic, $40 for preferred brand, and $80 for non-preferred brand. The current co-pays for both programs are $7 for generic, $15 for preferred and $30 for non-preferred brands. OSE estimates a savings of $2.1 million.

F. SHP PPO Clinical Programs

The consensus agreement between OSE and the LROs proposes that the State Health Plan PPO drug plan include the clinical programs of Generics Preferred, Step Therapy, and Drug Quantity Management, effective October 1, 2008. OSE estimates a savings of $1.2 million.

G. SHP PPO Deductibles

Effective January 1, 2009, the consensus agreement recommends increasing the State Health Plan PPO in-network deductible from $200 to $300 for each individual and from $400 to $600 for each family. The out-of-network deductible will increase from $500 to $600 for each individual and from $1000 to $1200 for each family. OSE estimates a savings of $1.5 million.

Discussion

The proposed changes to Group Insurance would result in an estimated $16.4 million in total savings for fiscal year 2009.

THE PANEL RECOMMENDS that the Commission approve the proposed changes to the group insurance program.

IV. OTHER GROUP BENEFITS

A. Professional Development Funds

OSE and LRO Recommendation

The OSE recommends continuation of the Funds at their current levels. The fund for MSC employees would remain at $150,000 and the Fund for B & A employees would be renewed at its current level of $50,000. OSE noted that the funds continue to be utilized by employees at a high rate.

Discussion

The Panel continues to support professional development of the state workforce, even in times of budgetary constraints.

THE PANEL RECOMMENDS that the MSC Fund be renewed at its current level of $150,000, and the B & A Fund be renewed at $50,000.